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# MORTGAGE FINANCE AUTHORITY

## Strategic Business Plan

### FY2006 - FY2008

EFS TECHNICAL REPORT NO. 18

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## **Acronyms**

BOD	Board of Directors
CAD	Consumer Affairs Department
CBE	Central Bank of Egypt
CLF	Central Liquidity Facility
CEO	Chief Executive Officer
COO	Chief Operating Officer
DTI	Debt Payment-to-Income Ratio
EBI	Egyptian Banking Institute
EFS	Egypt Financial Services Project
EHFC	Egyptian Housing Finance Company
FY	Fiscal Year
GC	General Counsel
GOE	Government of Egypt
GSF	Guarantee and Subsidy Fund
IAD	Industry Affairs Department
IAO	Internal Audit Office
IMD	Internal Management Department
IT	Information Technology
LTV	Loan to Value Ratio
MFA	Mortgage Finance Authority
MFCs	Mortgage Finance Companies
MOH	Ministry of Housing, Utilities and Urban Communities
MOI	Ministry of Investment
MOJ	Ministry of Justice
OC	Office of the Chairman
OGC	Office of the General Counsel
RAD	Research and Analysis Department
SRO	Self Regulatory Organization
USAID	United States Agency for International Development

## **EXECUTIVE SUMMARY**

This document presents a comprehensive strategic business plan developed for the Egyptian Mortgage Finance Authority (MFA) for the period covering fiscal years 2006 to 2008.<sup>1</sup>

A *Vision Statement* first describes the MFA's overall aspirations and a *Statement of Purpose* details the specific objectives of the plan. MFA's *Organization and Management* is discussed next, and a concise *Mission Statement* succinctly defines MFA's two central objectives:

- **Mortgage Market Regulation and Development**
- **Consumer Protection**

MFA's *Key Stakeholders* are identified and a set of *Operating Principles* that can serve to guide and mold MFA's actions is presented.

In the next section of the plan, MFA's *Current Operating Environment* and the mortgage market's *Near-Term Outlook* are analyzed, and the major challenges and obstacles that MFA is confronting in achieving its mission are identified. Although macroeconomic and business conditions appear to be relatively benign and improving in Egypt, the mortgage market has been very slow in developing. This is primarily because the cost of mortgage finance is currently too high for middle-income, or even upper-middle income class Egyptians to afford, and the housing credit needs of high and very high-income Egyptians are already being met with installment credit and individual housing loans offered by developers and commercial banks. What is needed most is a near-term strategy – via a mortgage finance demonstration project – that uses longer-tenure, guaranteed mortgages to bring down the cost of mortgage finance and grow the primary mortgage market by making housing finance affordable to a wider segment of the Egyptian population.

MFA's *Current and Projected Resources, Expenses and Funding Sources* are presented next. An organization chart illustrates MFA's major organizational units, each unit's major functions, and reporting and support relationships. MFA's projected annual expenses are broken out by major expense category over the FY2006-2008 period. The expected magnitude and type of financial support by each of MFA's two major sources of funding – Egyptian government appropriations and USAID financial assistance – is also discussed. Although they could be raised somewhat, MFA-imposed user fees are not projected to be a major revenue source over this period. Once the mortgage market is more developed and profitable, however, it should be possible for MFA to become entirely self-financing by imposing an annual fee based on a small percentage (ideally, less than one percent) of mortgage assets.

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<sup>1</sup> The United States Agency for International Development (USAID) funded this work as part of the Egypt Financial Services Project (EFS) being conducted by Chemonics International. James L. Bothwell, Chairman, Mortgage Market Strategies LLC prepared the plan with the assistance of EFS staff and information provided by EFS, MFA, and numerous government and private sector officials with whom he met in Egypt in July and September 2005. The author expresses his appreciation to all of those individuals and organizations that assisted him in making this plan possible.

Finally, the business plan presents the following three strategic goals for the MFA to focus on during the FY2006-2008 period:

- **Building an Efficient Agency**
- **Building an Efficient Mortgage Market**
- **Educating Consumers and Protecting Mortgage Borrowers**

A specific set of detailed business objectives and associated action steps, broken out by major organizational units and timeframes, is developed for each of these three major goals.

**Building an Efficient Agency** requires building a top management team, a capable staff, an IT infrastructure, and a knowledge base upon which to make informed decisions. One of the major recommended action steps is to establish an internal Executive Management Committee, comprised of the chairman, the deputy chairman, the general counsel, and the heads of the four operating and support departments. The Executive Management Committee, headed by the chairman, would meet weekly to provide direction, oversight and management of MFA's workload, to set priorities and timeframes for major tasks to be completed and assess progress toward these goals, to share information and ideas, and to build teamwork and establish good lines of communication throughout the agency.

Building an efficient agency also requires establishing effective external liaisons. Major recommended action steps include naming prominent industry participants, such as the chief executive officers of major banks and mortgage finance companies and major developers, to an Industry Advisory Council, and naming prominent representatives of the public to a Consumers' Advisory Council. These two advisory councils would meet with the MFA Board of Directors either quarterly or semi-annually to provide the Board with insights, information, advice and feedback about the development and status of the mortgage market in Egypt.

MFA should also consider establishing a protocol with the Central Bank of Egypt to collect and share information on the loan portfolios and financial condition of mortgage finance companies (i.e. a monthly "Call Report") and to provide for annual on-site inspections to supplement auditors' reports. MFA should also consider establishing a protocol with the Egyptian Banking Institute, or a similar organization, to use their facilities for regularly scheduled seminars, open to the media, in which senior MFA officials, major industry participants and outside experts can discuss the status of mortgage market development in Egypt and major agency initiatives and answer questions.

Other major action steps include designating certain MFA staff to be relationship managers who would serve as the primary contact points for existing mortgage finance companies ("Customer Representatives"), for investors expressing interest in establishing a mortgage finance company ("Marketing Representatives"), and for licensed professionals. MFA should also consider establishing and maintaining liaisons with the Central Bank of Egypt and other government ministries that collect and maintain information and databases on housing, consumer finance and general economic conditions in order to assess information needs and data gaps that exist and to help develop surveys and data collection instruments to fill those gaps.

**Building an Efficient Mortgage Market** requires, most importantly, the development and implementation of a public-private partnership to conduct a mortgage finance demonstration project in the near-term that will lower the cost of mortgage finance and make new housing

affordable for middle-income Egyptians through the use of government-guaranteed, long-tenure mortgages.

The basic concept behind the demonstration project is that a plot of land ready for development and located in one of the New Communities where property registration is less problematic, will be sold to a developer who agrees to build a mix of moderately sized and priced villas and multiunit buildings. Rather than having the developer sell the units to high and very high income individuals on a cash or a 3-to-5-year installment basis, the developer will instead agree to sell the units to middle income buyers who qualify for a lower down payment, lower interest rate, and longer-tenure, fixed-rate mortgages previously arranged through a mortgage finance company and made possible by government loan guarantees (up to a specified maximum purchase price or loan amount) and match-funded by lenders borrowing from a government-sponsored central liquidity facility that accesses the capital market through the issuance of debt instruments. The key to the project would be to extend the tenure of mortgages to 20 to 25 years, lower down payment requirements to 5 to 10 percent, and reduce interest rates by 200 to 250 basis points by supplying a government credit guarantee and eliminating the current 100 basis point charge for the Guarantee and Subsidy Fund, and by allowing lenders to shift the interest rate risk in fixed-rate, long-tenure mortgages to capital market investors by borrowing from the central liquidity facility.

MFA can serve as the catalyst for the demonstration project by forming a public-private partnership with developers, lenders and other involved government ministries. The partnership would design and implement the demonstration project. The project's loan structures and underwriting standards could become the basis for standardizing mortgages...a necessary precondition for the eventual development of a secondary mortgage market in Egypt. This is what occurred in the United States in the 1930s, when credit guarantees on 20-year, fixed-rate mortgages provided by the Federal Housing Administration and the capital market access provided by the Federal Home Loan Banks, a government-sponsored central liquidity facility for mortgage lenders, spurred the development and growth of a large, vibrant primary mortgage market and set the stage for the eventual development of a very large and liquid secondary mortgage market as well.

MFA could help establish the government-sponsored central liquidity facility by working with the World Bank, other potential investors, and other involved government ministries to analyze and decide a number of critical issues involving ownership, capital structure, governance, membership, operating rules, risk management policies and procedures, and the appropriate regulatory oversight mechanisms and controls.

Building an efficient mortgage market also requires MFA to develop and implement an efficient system of prudential regulation for both mortgage finance companies and licensed mortgage-related professionals. For mortgage finance companies, MFA should review and approve the companies' risk management policies and internal controls, and establish rules for capital, liquidity, market risk, loan loss provisioning, anti-money laundering and bank secrecy that are compatible with those of the Central Bank of Egypt. Working with Central Bank of Egypt, MFA should also establish an electronic monthly "Call Report" of loan performance and condition and income, and a protocol to conduct periodic on-site examinations to supplement the quarterly auditors' reports. MFA should also consider establishing a "prior approval" approach for new types of mortgage contracts, a set of "corrective action" procedures for troubled companies, and a set of "civil money penalties" and other sanctions for rule violations.

For licensed professionals, MFA should work with major industry participants and the Industry Advisory Council to establish a self-regulatory organization that will set and enforce rules of conduct, and training and certification requirements. The self-regulatory organization would operate under a delegation of authority from the MFA Board of Directors, be subject to MFA's active oversight and its ultimate legal authority and jurisdiction, and be self-financing through assessments and fees.

**Educating Consumers and Protecting Mortgage Borrowers** requires developing both a targeted outreach strategy and an efficient consumer protection standard. MFA should work with the Egyptian Banking Institute, or a similar organization, to present a regularly scheduled series of seminars to discuss the importance of the mortgage market, the status of its initiatives to stimulate the market and overcome the impediments to its growth and development, and to answer questions from the media and the public. An effective, targeted media campaign should be focused on real-life examples of middle class Egyptians who have obtained homeownership through the use of affordable long-tenure, fixed-rate mortgages made possible by the mortgage finance demonstration project.

To ensure consumer protection, MFA should develop and obtain Board approval for a set of written disclosures that all potential borrowers shall be required to receive, and to acknowledge receiving and understanding, from lenders before signing any mortgage contract. Such disclosures should be based on the Code of Conduct in the European Union or some other international best practice, and should make perfectly clear the terms and conditions of the mortgage contract and contain explicit explanations and illustrations of the risks that the borrower is assuming in taking out the mortgage. MFA should also develop and obtain Board approval for rules governing the mortgage "closing" process, based on international best practices, so that consumers are fully informed and aware of the total costs that they will be required to pay, and implement its "ombudsman" function so that consumers will have an avenue to voice complaints and a place where their complaints can be investigated and referred to the appropriate authority for possible remedial action.



## **VISION STATEMENT**

*“Vision: It reaches beyond the thing that is, into the conception of what can be. Imagination gives you the picture. Vision gives you the impulse to make the picture your own.”*

*...Robert Collier*

The Mortgage Finance Authority (MFA) envisions an Arab Republic of Egypt in which there exist:

- Homeownership opportunities that are affordable and widely available to broad segments of the Egyptian population.
- A modern system of housing finance based on an efficient mortgage market; that is, a mortgage market that is competitive, innovative, orderly, transparent, and fair.
- Ready access to domestic and foreign capital to fund mortgages, through both the emerging capital markets and the established banking system.
- A regulatory regime based on international standards and best practice that both encourages and supports mortgage market development and protects borrowers and consumers.
- A vibrant housing sector that is major source of economic growth, rising incomes, increasing wealth, and private sector job creation.

## **STATEMENT OF PURPOSE**

This strategic business plan is intended to:

- Define and focus MFA's mission, strategic goals, and business objectives for the period, FY2006 - FY2008.
- Define MFA's organizational structure, the major functions of its main departments, and the reporting and customer/client relationships that shall exist among these departments.
- Identify strategies and action steps that MFA can take to pursue and accomplish its strategic goals and business objectives over this period.
- Provide a basis for discussion with MFA's major stakeholders and to help achieve "buy-in", cooperation, and support from involved government ministries, major market participants, and donor institutions.
- Identify the likely resource needs and funding sources for the period, FY2006 - FY2008.
- Provide a benchmark against which MFA's actual performance can be measured and reviewed over this period.

## **ORGANIZATION AND MANAGEMENT**

### *Legal Authority*

The Mortgage Finance Authority operates under the Public Authority for Mortgage Financing Affairs contained in Presidential Decree No. 277 for 2001 of the Arab Republic of Egypt.

### *Board of Directors*

MFA is controlled and managed by an 8-member **Board of Directors** (BOD), headed by a Chairman, who is appointed to a 1-year term by the Prime Minister upon the recommendation of the Minister of Investment. Other board members include:

- A Deputy Chairman, appointed by the Minister of Investment for a 1-year term.
- One representative each from the Ministry of Investment (MOI), the Ministry of Housing, Utilities and Urban Communities (MOH), the Ministry of Justice (MOJ), and Central Bank of Egypt (CBE).
- Two outside experts appointed by the MOI.

The Board of Directors has broad authority and powers, as specified in the Presidential Decree, including the power to:

- Issue MFA's decisions and regulations.
- Determine MFA's personnel regulations, including salaries and incentives, which observe the basic rules stipulated for Public Servants.
- Approve MFA's annual budgets.
- Delegate temporarily certain mandates to the chairman, committees or individual board members.

MFA Board decisions become effective after approval by the Minister of Investment. Board decisions are deemed approved if the Minister voices no objection within 15 days of such decisions being communicated.

### *Organizational Structure*

The Board of Directors has approved an internal organizational structure for MFA. Under this organizational structure, displayed in the organization chart in Annex 1, MFA has the following two main operating departments:

- **Industry Affairs Department** (IAD), which is responsible for (1) licensing of Mortgage Finance Companies (MFCs), foreclosure agents, mortgage brokers, appraisers, and auditors, (2) supervision, monitoring and enforcement, and (3) industry education and liaison.

- **Consumer Affairs Department (CAD)**, which is responsible for (1) issuing disclosure and other consumer protection standards and guidelines, (2) a consumer ombudsman function, and (3) consumer education and liaison.

MFA also has the following three main support departments:

- **Office of the General Counsel (OGC)**, which is responsible for legal affairs, legislation and regulations, and a compliance board function.
- **Internal Management Department (IMD)**, which is responsible for human resources, budget and finance, and information technology (IT).
- **Research and Analysis Department (RAD)**, which is responsible for data collection, research, analysis, and policy development.

Each of these three support departments shall maintain customer/client relationships with MFA's two main operating departments, IAD and CAD.

The **Office of the Chairman (OC)** is responsible for external relations, public relations, and the Executive Secretariat, which is the unit responsible for providing the administrative support for the Board of Directors. The Chairman of MFA also currently serves as the Chairman of the Guarantee and Subsidy Fund (GSF). There are no other organizational ties between the two agencies.

The **Internal Audit Office (IAO)** performs internal operational audits and reviews under the direction of the Chairman. Accounting audits are provided by the Government of Egypt's (GOE) central audit office.

### *Management*

MFA's Chairman is the Chief Executive Officer (CEO) of the agency. The Deputy Chairman is the Chief Operating Officer (COO). The Deputy Chairman, the GC, and the Director of IAO report directly to the Chairman. The heads of IAD, CAD, IMD and RAD report to the Chairman through the Deputy Chairman.

### *Advisory Committees*

MFA benefits from a number of advisory committees, including an Advisory Committee on Appraisals, an IT Advisory Committee, and a Legal Advisory Committee.

## **MISSION STATEMENT**

MFA seeks to develop and regulate an efficient mortgage market in the Arab Republic of Egypt and to safeguard the rights of consumers and other mortgage market participants.

## **KEY STAKEHOLDERS**

MFA recognizes that to accomplish its mission, MFA must establish and maintain effective working relationships with the following key stakeholders:

- *Government of Egypt:* MOI, CBE, the other government ministries represented on the Board of Directors, the Ministry of Administration and Development, the Capital Markets Authority (CMA), and the Prime Minister.
- *Mortgage Market Participants:* MFA-licensed MFCs and other actual or potential mortgage lenders, including both state and private banks. MFA-licensed mortgage-related professionals and their associations, including foreclosure agents, mortgage brokers, appraisers, and auditors, and related professions such as real estate developers, agents and brokers.
- *Donor Institutions and Investors:* USAID, the World Bank, and other potential donors and investors.

MFA also recognizes that to accomplish its mission, MFA must establish effective lines of communication with two other sets of key stakeholders:

- *Consumers and Borrowers*
- *The Media*

## **OPERATING PRINCIPLES**

MFA shall operate under the following guiding principles:

- Competitive markets and enlightened government policies are key drivers of continued economic growth and development. MFA shall encourage efficient mortgage markets to develop and innovate to help meet the growing housing and housing finance needs of the Egyptian people.
- Without proper supervision and oversight by MFA, mortgage markets can become uncompetitive, disorderly, and unfair to consumers and other market participants. MFA's rules and regulations shall be designed to prevent such outcomes from occurring, but shall not be so burdensome and onerous as to stifle the efficiency, innovation, and growth of the emerging mortgage market. A proper balance is needed.
- Good communication and cooperation between MFA, MOI, and the other government ministries represented on the Board of Directors -- and between MFA and major market participants -- is essential to overcoming the institutional,

financial and cultural impediments to developing a vibrant mortgage market in Egypt.

- Technology and a highly skilled, educated workforce are essential resources both for an efficient mortgage market and for an efficient and effective MFA.
- By operating in as lean and efficient manner as possible and striving to become self-funding overtime, MFA shall demonstrate that the ultimate policy goal is job creation and growth in the private sector, not in the public sector.
- Like central banks and many other financial regulators throughout the world, MFA will seek to act independently on the basis of its own professional judgment and analysis.

## **CURRENT OPERATING ENVIRONMENT**

Understanding the current environment in which MFA operates and, in particular, both the operational challenges that MFA confronts and the supporting resources that MFA has available to address these challenges, is essential to developing the strategic goals, business objectives, and action steps that are contained in this plan. Unfortunately, a paucity of reliable data and information require a greater reliance on anecdotal information and sources than is otherwise desirable.

Some of the more noteworthy environmental factors that shape this plan include the following:

### ***Macroeconomic Conditions***

Interest rates are high, but declining. CBE's discount rate was recently lowered from 10 percent to 9.5 percent. Average annual interest rates on three-month LE deposits at banks declined to 7.61 percent as of 30 June 2005, from 7.68 percent as of June 2004, and 8.46 percent as of June 2003. From June 2003 to June 2004, average interest rates on loans of one year or less declined to 13.27 percent from 13.45 percent, but rose to 13.45 percent as of 30 June 2005.<sup>2</sup> Limited market data indicate that the government bond yield curve is quite flat, with the yields on 1-year, 3-year, 5-year, 7-year, 10-year, and 20-year bonds (the latest is callable in 5 years) being within 50 basis points or less. The Ministry of Planning reports that the current inflation rate, based on a recently revised consumer price index for May, is between 5 percent and 6 percent. Anecdotal information indicates that there have been significant price increases in previously subsidized commodities, and the current high level of interest rates may indicate a market expectation of possibly higher inflation. During FY2003/2004, the inflation rate exceeded 11 percent.

The Ministry of Planning also reports that real GDP increased by 4.3 percent in FY 2003/2004, up from 3.0 percent in the previous year. The additional fiscal stimulus currently resulting from recent major tax cuts and increasing government budget deficits

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<sup>2</sup> Much of this economic data is obtained from CBE's Annual Report 2003/2004, CEB's website, and IMF Country Report No. 05/177, Arab Republic of Egypt (June 2005).

should continue to fuel economic growth. Real GDP increased by 4.8 percent in the first half of 2004/2005.

Lack of liquidity does not appear to be a problem in the banking sector. Overall, domestic liquidity increased by 13.2 percent during FY 2003/2004, with bank deposits increasing 14.5 percent to LE 461,697 million in 2004 from LE 403,144 million in 2003. Banks with large portfolios of nonperforming loans (estimated to be over 25 percent of total loans as of September 2004) and not meeting minimum capital adequacy requirements are being actively addressed by CBE through on-going mergers, acquisitions, and privatization initiatives.

### ***Market Conditions***

Substantial evidence, mostly anecdotal, indicates that there is a large “pent-up” demand for housing in Egypt, especially among the burgeoning population in their early twenties to mid-thirties who are seeking to establish their own households. This demand for homeownership is currently being constrained somewhat by the existence of a large stock of very inexpensive rental housing still under the old rent control laws.

**Lack of public awareness and the property registration process are major impediments to the development of the mortgage market to meet the growing demand for housing and housing finance.** There are three primary sources of credit available to consumers wishing to purchase flats or villas and unable to pay with cash<sup>3</sup>:

1. Banks offering individual housing loans and MFA-approved mortgages,
2. Developers offering installment credit to purchase their units, and
3. Two MFA-licensed MFCs – Al-Taamir and the Egyptian Housing Finance Company (EHFC).

Both banks and developers are well established in the marketplace and known to consumers. MFCs, by contrast, are relatively new and offer only one principal product...an MFA-approved mortgage...that is new, requires property registration, and is little understood by consumers. In all but the New Communities, property registration is perceived as a cumbersome, time-consuming, and expensive process.

Currently, little credit is being supplied to households from any of the available sources for purchasing residences. The banking system, in general, makes little credit directly available to households for any purpose. CBE statistics indicate that only 12 percent of total bank credit is extended to households... LE 37,014 million in 2004 out of a total of LE 296,199 million. A recent survey of 196 flat/villa owners conducted for the MFA by the Egypt Financial Services Project (EFS) illustrated this point, by showing that almost half (45 percent) of these owners made a cash purchase. Thirty percent of the owners reported using developer-supplied credit, 14 percent reported using individual housing

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<sup>3</sup> The ultimate source of funds for each of these three different funding avenues is mainly domestic bank deposits, since developers mostly operate with credit or lines of credit supplied by domestic banks, and the two MFA-licensed MFCs are operating primarily with equity capital supplied by domestic banks and on lines of credit from domestic banks.

loans from banks or finance companies, and only 9 percent reported using a mortgage from a bank or an MFC to obtain financing.<sup>4</sup>

**High cost of finance is a main impediment.** Regardless of whether a consumer applies for housing financing from a bank, a developer, or an MFC, only people in the upper income classes who have substantial amounts of savings can qualify for loans and afford to pay the high cost of credit. The main factors causing this result are:

- Substantial down payment requirements (usually 20-to-25 percent).
- Short loan tenures (usually 3-to-5 years for developers' customers, 5-to-7 years for bank customers/10-to-12 years for bank employees, and a maximum of 10 years for customers of one MFC and 20 for the other MFC).
- High interest rates (14.5 percent for MFCs and 12-to-13 percent for banks' employees and best customers), and
- A maximum debt payment-to-income (DTI) ratio of 40 percent for MFA-approved mortgages.

To illustrate, consider a hypothetical example of a potential moderate-to-high income customer, an established middle-aged senior manager with an income of LE 7,000 per month and savings of LE 50,000, who is seeking to obtain a mortgage to buy a 150 square meter flat in Heliopolis priced at LE 300,000. Under the terms offered by one of the MFCs, this potential customer would be required to have a down payment of LE 75,000 and a monthly income of LE 8,904 to be able to qualify for a LE 225,000, 10-year, fully amortizing mortgage at the going interest rate of 14.5 percent.

Thus, even if the public fully understood and accepted the concept of a mortgage, and even if property registration was fast, easy and inexpensive throughout Egypt, only people in the high and very high-income classes would be able to qualify for a mortgage under the terms and conditions currently available in the market.

### ***Mortgage Finance Companies***

Because of the market impediments discussed above, the two MFA-licensed MFCs have yet to originate and fund many mortgages. Al-Taamir -- the first licensed MFC -- has only LE 272,546 -- or .14 percent of its current assets -- in mortgages as of July 2005 despite being in business for over one year and an available paid-in capital of LE 187.7 million. Over 99 percent of its current assets of LE 191 million remain in cash and treasury bonds.

Egyptian Housing Finance Company (EHFC) -- the second MFA-licensed MFC -- reported having a portfolio of LE 62.15 million in housing loans as of July 19, 2005. This amount exceeds its paid-in capital of LE 50 million, and the company will now have to

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<sup>4</sup> "Knowledge, Attitudes and Behaviors of Cairo Flat/House Owners and Potential Owners: A Baseline Survey," Egypt Financial Services Project, USAID/Egypt, Technical Report No. 12 (May 26, 2005)



draw on its established lines of credit with its shareholder banks. MFA-approved mortgages originated by EHFC, however, account for only LE 4.75 million, or less than 8 percent of the total loan amount. Most of the loans (85 percent of the total loan amount) are from portfolios purchased from two developers, and the rest are housing loans originated by one of its major shareholder banks and transferred to EHFC.

Both of the MFCs report similar experiences with their advertising and marketing campaigns. Thousands of calls and inquiries were generated, but very few inquiries led to applications, and few of those inquiring and applying were able to qualify for mortgages because they were unable to meet the down payment and income requirements.

### ***Licensed Professionals***

As of July 2005, MFA has licensed or registered about 185 mortgage brokers, 60 appraisers, and 25 auditors. Training for brokers and appraisers is being delivered via established protocols with Cairo University. More advance training for brokers is being delivered through courses at the American University in Cairo. Auditors meeting CBE's registration requirements can also be registered at MFA. They are not required to be certified public accountants.

No foreclosure agents have been registered and licensed as of July 2005. A protocol exists for the Ministry of Justice to provide training, courses are delivered and the first round of graduates is expected in a year time. This could pose a potential problem in that one mortgage is two-months delinquent, with only one month to go before the expedited foreclosure process would take effect.

## **NEAR-TERM OUTLOOK**

All the key ingredients exist for the continued growth and development of the mortgage market over the near term:

- A relatively benign macroeconomic environment with increasing real economic growth, inflation being constrained to single digits, and interest rates that are beginning to decline.
- Growing business confidence recently evidenced by a surging stock market and an appreciating currency.
- An increasing demand for housing and housing finance created by rising real incomes, a continued decline in the housing stock under the old rent control law, and a surge in the number of people in their twenties and early-thirties looking to establish their own households.
- A relatively flat yield curve, with long-term interest rates only slightly higher than short-term rates.
- A liquid banking system.
- An abundant supply of inexpensive land, with available utilities, ready to build upon.
- An established pool of skilled developers, bankers and other highly educated, entrepreneurial talent, and
- A reform-minded, talented GOE economic team.

What appears to be missing, however, is the catalyst that can bring all these ingredients together and energize a promising, but here-to-fore slowly developing, mortgage market by attacking the main impediment to its growth...the high cost of mortgage finance.

MFA can provide this catalyst by forming a public-private partnership with MOH, CBE, GSF, developers and MFCs to provide government guarantees, bring down the cost of mortgage finance, and tangibly show, through a near-term demonstration project, that mortgages are the vehicle for making homeownership affordable to a growing class of middle income Egyptians who are now shut out of the market.

Unfortunately, the market realities are such that the outlook for the mortgage market is not particularly bright without the demonstrable benefits that such a project can provide. Only people with high incomes can currently afford mortgage payments and down payments, and their credit needs can already be met by the installment loans offered by developers and individual housing loans offered by banks.

At least two major Egyptian financial institutions have expressed some interest in establishing an MFC. One of these institutions is a major domestic bank that has the option of providing mortgages and individual housing loans through its bank charter. There are a number of reasons why using its bank charter may turn out to be the

preferable route for it to take. Another major domestic bank that had been planning on establishing an MFC a year ago has apparently decided not to do so because it is cheaper and easier to offer mortgages and housing loans through the bank charter itself. The other potential MFC applicant is a major non-bank financial institution that could be a major force if it decides to enter the market because of its extensive presence throughout Egypt and its large source of investable funds.

Some international financial institutions and foreign groups have also expressed interest in investing in the mortgage market, and working with MFA and GOE in other ways, possibly with the creation of a central liquidity facility (CLF). While liquidity does not appear to be constraining market development at the present time, designing and establishing a CLF is a necessary step in developing a longer-tenure mortgage product and transferring market risk to capital market investors. Another immediate priority is to develop and implement a near term strategy to bring down the high cost of mortgage finance and to grow the primary mortgage market by making mortgages affordable to a wider segment of the Egyptian population, particularly the middle income classes.

Considering all of these factors, a reasonable near term outlook is that MFA will receive two or three applications for new MFCs over the FY2006-2008 period, and that mortgage assets will grow at an annual rate of 15-to-20 percent. Applications for brokers and appraisers can be expected to increase at similar rates as more training is delivered, with applications for foreclosure agents starting to be received once training courses come on-line.

A successful demonstration project that lowers the cost of mortgage finance and supplies middle-income Egyptians with affordable, quality housing could substantially increase these numbers. Of course, there are always downside risks as well – most notably an increase in inflation, interest rates and unemployment possibly resulting from an external shock to the economy – that could seriously curtail the development of the market in the near term.

## **CURRENT AND PROJECTED RESOURCES, EXPENSES AND FUNDING SOURCES**

MFA is currently operating with GOE-appropriated funds and with financial support from USAID. User fees are charged for licensing MFCs, registering mortgage-related professionals, filing forms, and for investigating complaints, but the amounts are nominal and go into the GOE treasury (Annex 2). Any fines or penalties that are levied go to the GSF. Substantial amounts of technical assistance, training, and financial support are being provided through USAID's Egypt Financial Services (EFS) Project.

### ***Current Staffing***

MFA's current staff as of September 2005 numbers 88 individuals: 71 permanent staff, 12 contract staff and 5 staff seconded from MOH. Many of these staff are low-skilled service workers. These employees' salaries and incentives observe the basic rules stipulated for public servants. MFA has requested substantial salary increases in order to attract and maintain a skilled professional staff and has an understanding that USAID, through the EFS Project, will help hire and fund 17 "Immediate Needs" positions at near market rates. These 17 positions (Annex 3) are to be filled through a competitive selection process. Position descriptions are written and ready for posting.

As of September 2005, most of the key management positions under the Chairman, with the notable exception of the recently appointed Deputy Chairman, are unfilled.

### ***Current Office Space and Equipment***

MFA currently owns office space acquired from MOH for LE 13 million. The space includes one large floor of a multi-story MOH building in Giza that is mostly used for public housing. Much of the office space is in need of renovation. Some offices have desktop computers with Internet access. MFA plans to vacate its existing premises and relocate into new offices at Smart Village in the coming fiscal year.

### ***Projected IT Budget***

In July 2005, USAID approved an EFS-developed IT Needs Assessment Report.<sup>5</sup> The report identifies the hardware, software, staffing, budget, and training requirements needed to establish and maintain the following six IT functions:

- Regulatory Information Management System
- Financial/Administration System
- Office Automation Software
- Document Management System
- Web site
- Call Center Service

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<sup>5</sup> MFA: Information Technology Needs Assessment Report, Draft for Review and Discussion, EFS Project (April 24, 2005).

As shown in Annex 4, USAID is projected to provide LE 2,951,194 in FY2006 to fund this IT plan, including LE 2,199,168 for acquisition of hardware and software and LE 752,026 for services and running costs. GOE is to provide additional funding of LE 235,584 for software and LE 77,760 for services and running cost.

For FY2007 and FY2008, USAID is projected to provide LE 2,579,328 in funding, including LE 1,830,528 for hardware and software and LE 748,800 for services. GOE is to provide additional funding of LE 1,857,600 for software and LE 328,320 for services and running cost.

### ***Projected Expenses***

MFA's approved FY2006 budget, contained in Annex 5, projects LE 4,310,00 in operating and capital expenses for the current fiscal year, including<sup>6</sup>:

- Compensation for permanent, temporary and seconded staff..... LE 1,685,000
- Purchases of goods and services and other expenses.....LE 425,000
- Investments, building & construction and research projects .....LE 2,200,000

Rental expenses for the new facilities in Smart Village are projected to be LE 1,200,000 for fiscal year 2007.

Based on the approved MFA FY2006 budget amounts, the projected budget amounts for the 17 "Immediate Needs" staffing (Annex 6), the projected annual rental cost of the Smart Village facilities, and the approved IT budget, MFA's total projected annual expenses for the period FY2006-2008 are summarized in the table below. Expenses in all budget categories except for IT and the USAID-funded 17 "Immediate Needs" positions are projected to increase by 7 percent from 2006 to 2007 and by 5 percent from 2007 to 2008, reflecting an anticipated continued decline in inflation. **It is important to note that these projections are estimates only and do not include the additional costs of the salary increases for its professional staff that MFA has recently requested from GOE.**

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<sup>6</sup> In July 2005, USAID notified the Minister of International Cooperation that it would be providing LE 1.2 million to fund MFA's operations for FY2006. However the MFA could not access these funds.

## **MFA PROJECTED EXPENSES: FY2006–2008**

<b>Expense Category</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>
<b>Salaries and Benefits</b>			
Permanent, Temporary and Seconded Staff	LE 1,685,000	LE 1,802,950	LE 1,893,098
"Immediate Needs" Staff <sup>7</sup>	LE 1,944,000	LE 2,516,000	LE 2,516,000
<b>Subtotal</b>	LE 3,629,000	LE 4,318,950	LE 4,409,098
<b>Purchased Goods &amp; Services&amp; Misc. Other Expenses</b>	LE 425,000	LE 454,750	LE 477,488
<b>Purchases of Non-Financial Assets</b>			
Building & Construction	LE 1,250,000	LE 1,337,500	LE 1,404,375
Smart Village	N/A	LE 1,200,000	LE 1,260,000
Office Machines and Equipment, except IT, Vehicles	LE 400,000	LE 428,000	LE 449,400
Studies and Research Projects	LE 550,000	LE 588,500	LE 617,925
<b>Subtotal</b>	LE 2,200,000	LE 3,554,000	LE 3,731,700
<b>IT Expenses <sup>8</sup></b>			
Hardware	LE 1,001,664	LE 562,464	LE 562,464
Software	LE 1,433,088	LE 1,281,600	LE 1,281,600
Services	LE 357,120	LE 518,400	LE 518,400
Running Cost	LE 472,666	LE 20,160	LE 20,160
<b>Subtotal</b>	LE 3,264,548	LE 2,382,624	LE 2,382,624
<b>Total Projected Expenses</b>	LE 9,518,548	LE 10,710,324	LE 11,000,910

### ***Projected Funding Sources***

As discussed above, MFA's two main sources of funding over this period for salaries, IT, training and other expenses are GOE appropriations and USAID financial support.

MFA's FY2006 Budget estimates total revenues of LE 4,310,000, including loans from the National Investment Bank of LE 2,200,000, GOE appropriations of LE 1,610,000, and estimated revenues from MFA services and fees of LE 500,000. An additional LE 313,344 is needed to fund the GOE portion of MFA's projected IT budget in FY2006.

<sup>7</sup> USAID-funded positions.

<sup>8</sup> USAID is projected to fund LE 2,951,194 of the total LE 3,264,548 in projected FY2006 IT expenses. See Annex 4 for a detailed breakout of projected USAID and GOE IT expenses over FY2006-2008.

Several suggestions have recently been made that MFA could fund substantially more of its operations by increasing its user fees, expanding its fee base, and imposing new assessments on mortgage market participants.<sup>9</sup> Such suggestions are certainly in keeping with one of the key operating principles: Striving to become self-funding over time. It is also true that some of MFA's current user fees.... for professional registrations, filing forms, reviewing and copying documents, etc...appear to be somewhat lower than those currently being charged by other financial regulators, such as the CMA, and could be raised accordingly. Such increases, however, are not going to raise any substantial amounts of revenue given the current status of the mortgage market and the near term outlook.

Imposing any substantial new assessments on market participants should be avoided over the FY2006-2008 period because such assessments would increase business costs and run directly counter to MFA's primary objective of helping to develop the nascent market by reducing the high cost of mortgage finance. Unlike the CBE and CMA, the MFA is charged with developing and regulating a credit market where there are alternative, competitive, and established sources of supply...banks and developers...and needs to be very wary of imposing any additional costs on mortgage market participants.

Once the mortgage market is through its developmental stage, and is both sizable and profitable, MFA should be able to easily fund its entire operations by levying a modest assessment on mortgage assets of perhaps one-to-two basis points in keeping with the modest amount that CBE currently assesses banks for its services. Also, it is quite proper that any revenues from MFA-imposed penalties go to the GSF, and Article 36 of the law should not be changed in that regard. Having civil money penalties go to the MFA would only raise questions as to the motivations for its enforcement actions and sanctions.

## **STRATEGIC GOALS, BUSINESS OBJECTIVES, AND ACTION STEPS**

MFA's activities for FY2006-2008 shall focus on three strategic goals:

- **Goal 1: Building an Efficient Agency**
- **Goal 2: Building an Efficient Mortgage Market**
- **Goal 3: Educating Consumers and Protecting Mortgage Borrowers**

Each of these three goals has a corresponding set of business objectives and specific action steps that are to be taken over this period.

### **Goal 1: Building an Efficient Agency**

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<sup>9</sup> "Funding the Mortgage Finance Authority: Challenges and Potential" Final Report, May 2005, EFS.

Obviously, nothing of much substance can be accomplished without first following the operating principles and building an efficient agency that is capable of achieving its mission. The specific business objectives to achieve this goal are listed below, organized by responsible departments and offices, and including corresponding actions steps, and intended timeframes. The lead department is in bold type.

#### Business Objective 1(a): Build a Top Management Team

##### **Office of the Chairman**

FY2006

- Fill the office and department head positions. After positions have been posted and competed, select among the best-qualified candidates those individuals most capable of fulfilling the responsibilities of OGC, IAD, CAD, IMD, RAD, and OIA. If selections will take more than several months, name individuals to serve in the positions on an “acting basis”.
- Establish a 7-member Executive Management Committee comprised of the Chairman, the Deputy Chairman, the General Counsel, and the heads of IAD, CAD, IMD, and RAD. In the absence of the Chairman, the Deputy Chairman/COO shall chair the Committee. The Director of IAO is not involved with the management of the agency and does not serve on the Management Committee.

The Executive Management Committee shall meet at least weekly to share information, provide oversight and management of the agency’s workload, and to set priorities and timeframes for major tasks to be completed.

FY2007-2008

- Enlist the help of MFA’s board members to obtain greater flexibility over staff pay and benefits to match that of the other financial regulatory agencies in Egypt, the CBE and the CMA, and to gradually eliminate the pay gaps between MFA’s GOE employees and MFA’s USAID-funded staff. If necessary, seek to trade-off the numbers of MOH-seconded positions for higher compensation for a smaller number of remaining staff and seek a change to the wording of Presidential Decree No. 277.

#### Business Objective 1(b): Build a Capable Staff

##### **COO, OGC, IMD**

FY2006



- Under the direction of the Chairman, work with the heads or acting heads of MFA's main departments and offices to select individuals for any of the USAID-funded or GOE-funded staff positions that remain to be filled.
- Establish an annual budget process for offices and departments to request approval for their perceived staffing, IT, and other budget needs. Such needs shall be based on written, annual work plans for each major office and department that shall be submitted to, and approved by, the COO.
- Establish an annual process for evaluating staff performance and determining training needs.
- Establish a process for reassigning existing MOH-seconded staff to positions within the new organizational structure based on approved staffing needs, staff assessment and written performance appraisals.
- Establish an annual process for offices and departments to determine staff training needs. Work with EFS to obtain appropriate training for staff.

#### FY2007-FY2008

- Work with the heads of the main departments and offices to advertise and fill any funded "Additional Needs" and other positions that are approved each year by the Chairman. Each position shall have a written description of the needed knowledge, skills and abilities, and shall be competitively selected from among those applicants considered to be "best qualified".
- Ensure that staffs are receiving appropriate training and feedback on their job performance.

### Business Objective 1(c): Build the IT Infrastructure

COO, **IMD**

FY2006

- Work with the EFS project in implementing Phase 1 of the approved IT Needs Assessment Plan.

FY2007-2008

- Work with the EFS project in implementing Phase 2 of the Plan.
- Delay implementing the Call Center function until mortgage finance becomes demonstrably affordable for the middle class.

### Business Objective 1(d): Upgrade Facilities

OC, COO, **IMD**

FY2006

- Work with the Board to obtain a facility that can accommodate the extensive IT systems that will be used in MFA's daily activities, and that is reflective of MFA's mission to develop a modern system of mortgage finance in Egypt. The existing facility, housed in a residential building, is not suitable for this purpose. Because this facility was obtained in an intra-governmental swap of assets between MFA and MOH, there was no purchase or sale involving the expenditure of taxpayer funds. The facility should be returned to MOH for a more appropriate use, and a modern facility should be obtained, either by purchase or long-term lease, with the funds –in a new, high-tech business location such as “Smart Village”.

FY2007

- Move into the new, modern facility.

### Business Objective 1(e): Establish Effective External Liaisons

**Office of the Chairman**

FY2006

- Name prominent industry participants to an Industry Advisory Council that shall meet quarterly or semi-annually. These individuals should be CEOs of major banks, MFCs, and developers and serve on the Council for 2 years.
- Name prominent representatives of the public to a Consumers' Advisory Council that shall meet quarterly or semi-annually. Nominations should be solicited from the public and the GOE and individuals should agree to serve for 2 years.

- Establish a public/private partnership with MOH, GSF, CBE, MOI, major developers, and MFCs that will design and sponsor a demonstration project to bring affordable, mortgage-financed housing to middle class Egyptians.
- Establish a protocol with CBE to collect and share information on the loan portfolios and financial condition of MFCs (a monthly “Call Report of Condition and Income”) and provide for annual inspections to supplement auditors’ reports.
- Establish a protocol with the Egyptian Banking Institute (EBI) to use their facilities for regularly scheduled, quarterly or semi-annual seminars, open to the media, in which senior MFA officials, major industry participants, and outside experts will discuss major issues concerning the ongoing development of the mortgage market in Egypt and answer questions.

FY2007–2008

- Maintain established liaisons.
- Actively participate in regularly scheduled EBI seminars to increase public awareness and support.
- Lead the mortgage finance demonstration project.

### ***Industry Affairs Department***

FY2006-2008

- Assign a staff member to be the “Customer Representative” for each licensed MFC. This staff member shall be the primary contact point and on-going liaison with the MFC and shall be responsible for staying current with the MFC’s operations and informing MFA management of any developing issues with respect to the MFC.
- Assign a staff member as a “Marketing Representative” to be the primary contact point with financial institutions and other investors that are interested in establishing an MFC and help them work through the licensing process.
- Assign staff members to be the primary contact points for licensed brokers, foreclosure agents, appraisers and auditors. These staff members should be fully aware of MFA’s licensing, registration and training requirements and be able to answer questions and provide directions to individuals who seek to register or obtain a license and the required training.

### ***Consumer Affairs Department***

FY 2006-2008

- Establish and maintain liaisons with major consumer groups and associations of homeowners, renters, or borrowers that may develop.

## ***Research and Analysis Department***

FY2006-2008

- Establish and maintain liaisons with the Ministry of Planning, the CBE and other GOE ministries that collect and maintain information and databases on housing, consumer finance, and economic conditions.

### **Business Objective 1(f): Build a Knowledge Base**

#### ***COO, Research and Analysis Department***

FY2006

- Assess the information and data needs for MFA to successfully carry out its mission.
- Assess the sources and quality of data that are available on housing, consumer finance, the banking system, and general economic conditions that can help meet these needs.

FY2007-2008

- Identify the data gaps that exist and work with relevant GOE ministries and the EFS project to design surveys, such as an annual household survey of consumer finance, which can help close these gaps.
- Compile existing databases.
- Implement newly designed surveys.

## **Goal 2: Building an Efficient Mortgage Market**

There are three logical phases toward achieving this goal: First, developing an efficient primary mortgage market that can bring the cost of homeownership within the reach of middle-income consumers. Second, establishing a regulatory regime that ensures the stability of the mortgage market and protects consumers. Third, developing a secondary mortgage market institution, such as a CLF, to provide greater liquidity and access to larger pools of capital from both domestic and foreign sources.

### **Business Objective 2(a): Develop a Public-Private Partnership to Reduce the Cost of Mortgage Finance**

#### ***Office of the Chairman, COO, OGC***

FY2006

- Work with MOH, MOI, GSF, CBE, other involved GOE ministries, and the Industry Advisory Council to form a public-private partnership with developers and MFCs that can sponsor a demonstration project to bring down the cost of mortgage finance through the use of government guarantees and longer-tenure mortgages.

OC, COO, OGC, IAD, RAD,

FY2006

- Design a mortgage finance demonstration project working with the public-private partnership and expert technical assistance provided by the EFS project. The basic concept is that a MOH-owned plot of land ready for development and located in one of the New Communities (6<sup>th</sup> of October City, for example) where property registration is less problematic and time-consuming, will be sold to a developer who agrees to build a mix of moderately sized and priced villas and multiunit buildings. Rather than having the developer sell the units to high and very high income individuals on a cash or 3-to5-year installment basis, the developer will instead agree to sell the units to middle income buyers who qualify for lower down payment, lower interest rate, and longer tenure fixed-rate mortgages previously arranged through an MFC and made possible by government loan guarantees (up to a specified maximum purchase price or loan amount) provided by GSF or CBE and match-funded by lenders borrowing from a government-sponsored central liquidity facility (CLF).<sup>10</sup> Annex 7 provides a schematic of how this primary mortgage market demonstration project would be structured.

To illustrate, consider the earlier hypothetical case of the middle-aged senior manager with LE 50,000 in savings and a monthly income of LE 7,000 who is priced out of buying a 150 square meter, LE 300,000 flat in Heliopolis because he cannot qualify for a mortgage. A similar-sized unit should be able to be offered profitably for sale in the new development at a similar price. With the current cost of funds, and with the existence of a well-designed government guarantee and a government-sponsored CLF to provide long-term matched funding, and with the elimination of the 1 percentage point GSF charge, an MFC could very well be able to profitably offer a mortgage...priced off the current yield on 7-year government bonds and including payment of a guarantee fee of 50 basis points or so... at a fixed 12 percent interest rate for 20 years, with the same maximum 40 percent DTI ratio, but with an LTV ratio greater than 80 percent. Thus, if the hypothetical buyer used his LE 50,000 in savings for a down payment on a similar LE 300,000 unit in the new development, he could qualify for a LE 250,000, 12 percent fixed-rate, 20-year mortgage with a monthly payment of LE 2,753, or 39 percent of his monthly income.

FY2007–2008

- Implement the demonstration project.

<sup>10</sup> Article 13 of the CBE Statute authorizes the CBE to “guarantee the finance and credit facilities obtained by public legal persons or the banks...financial institutions, and foreign and international organizations....”

## Business Objective 2(b): Develop an Efficient System of Prudential Regulation

OC, COO, OGC, **IAD**, RAD

FY2006

- Work with the CBE's ongoing project to develop an electronic reporting system for banks, and the EFS project, to develop an electronic "Call Report" for MFCs that contains basic information about the composition and performance of their loan portfolios and their overall financial condition and performance. The "Call Report" information should be delivered monthly both to the MFA and the CBE, where it can be assimilated with other CBE data on the amounts and performance of banks' individual housing loans, real estate loans, and mortgages to obtain an overall picture of the amounts, types and quality of credit being extended to the housing sector.
- Require MFCs to submit annually copies of their written business plans and of their risk management plans and internal controls procedures for MFA review and approval.
- Request the Board to grant explicit approval for MFA to order the removal, for cause, of MFC managers, officers, and directors.
- Work, together with the EFS project, to eliminate any uncertainty that may currently exist about what types of mortgage contracts are permissible under the law and executive regulations.
- Implement CBE's loan loss provisioning requirements for MFCs.
- Implement CBE's "Bank Secrecy" and anti-money-laundering requirements for MFCs.
- Require MFCs to become members of the newly formed, bank-sponsored credit bureau.

FY2007-2008

- Implement a protocol to conduct annual on-site inspections of MFCs to supplement the auditors' quarterly reports.
- Work with CBE to develop a harmonized set of liquidity and market risk standards for MFCs and banks.
- Work with CBE and GOE officials to harmonize the capital requirements for mortgages held by MFCs (currently 10 percent) and mortgages held by banks (currently 5 percent).
- Develop and obtain Board approval for a set of "civil money penalties" to be imposed for violations of MFA rules and regulations.
- Develop and obtain Board approval for a set of "corrective action" standards and procedures to follow if an MFC approaches the 10 percent minimum capital adequacy.
- Work with the Board and the Industry Advisory Council to develop a private sector "Self Regulatory Organization (SRO)" approach to setting and enforcing standards (i.e. the Compliance Board function), and developing and delivering training, for MFA-licensed brokers, appraisers, and foreclosure agents. The SROs shall operate under a delegation of authority from the MFA and be self-financing through assessments and

fees. MFA will provide active oversight of their activities and retain ultimate legal authority and jurisdiction over SRO operations.

- Develop and seek Board approval for a “Prior Approval” approach to mortgage contracts. Under this approach, MFCs and banks can still use MFA-developed contracts, but will also be allowed to innovate and develop alternative types of mortgage contracts that could make housing finance more affordable to consumers. MFCs would not be allowed to use any such alternative contracts until receiving MFA approval and assurance that the contracts meet with all requirements of the law and executive regulations and any MFA consumer protection and disclosure requirements.

#### Business Objective 2(c): Developing a Secondary Mortgage Market Institution

**OC, COO, OGC, IAD, RAD**

FY2006

- Work with MOI, CBE, the World Bank and USAID/EFS to develop a protocol for designing and capitalizing a central liquidity facility. Establishing a CLF to provide access to the capital markets and match funding for lenders making long-tenure mortgages is very important and can be a good first step toward developing a secondary mortgage market. Once operational, a CLF can supply access to both the domestic and international capital markets for MFCs to meet the potential increased demand for long-term fixed rate mortgages that should arise from a successful mortgage finance demonstration project.

FY2006 – 2008

- Work with other involved GOE ministries, CBE, donor institutions, and potential investors to help develop a capital and governance structure for the new CLF, operating procedures and risk management policies, and an efficient and effective regulatory oversight mechanism.

### **Goal 3: Educating Consumers and Protecting Mortgage Borrowers**

Until mortgage finance becomes affordable to a wider class of middle-income Egyptians, there may be little benefit in conducting a mass communication strategy to increase public awareness. Such a strategy, like the MFCs’ initial marketing campaigns, could result in raised expectations, frustration and disappointment, and little, if any, increase in real business being done. Initially, education efforts should be targeted at keeping the industry and media informed of MFA and GOE initiatives to lower the impediments to mortgage finance...by improving the registration process and by lowering the cost of finance through a public/private demonstration project...that are conveyed at a regularly scheduled series of EBI-hosted seminars. If the proposed demonstration project is successful, a very powerful message can then be delivered, based on real-life examples,

that mortgages, either with or without a government guarantee, are the vehicles for making homeownership affordable for a growing population of Egyptians.

Business Objective 3(a): Develop a Targeted Outreach Strategy

*Office of the Chairman, **COO**, OGC, CAD*

FY2006-2008

- Initiate and participate in a series of EBI-sponsored seminars to keep the industry and media informed of on-going and planned initiatives—such as the proposed demonstration project -- to develop the mortgage market.
- Focus on real-life examples of middle class Egyptians obtaining ownership of their first flat or villa by using a mortgage.
- Implement the MFA website design contained in the IT Needs Assessment developed by the EFS project. Add a “mortgage cost calculator” component, where users can conveniently calculate the monthly cost of a mortgage under various interest rate, down payment, and tenure assumptions. Add links to the websites of licensed MFCs so users can obtain the terms currently offered on their mortgages.

Business Objective 3(b): Develop an Efficient Consumer Protection Standard

*COO, OGC, **CAD***

FY2006

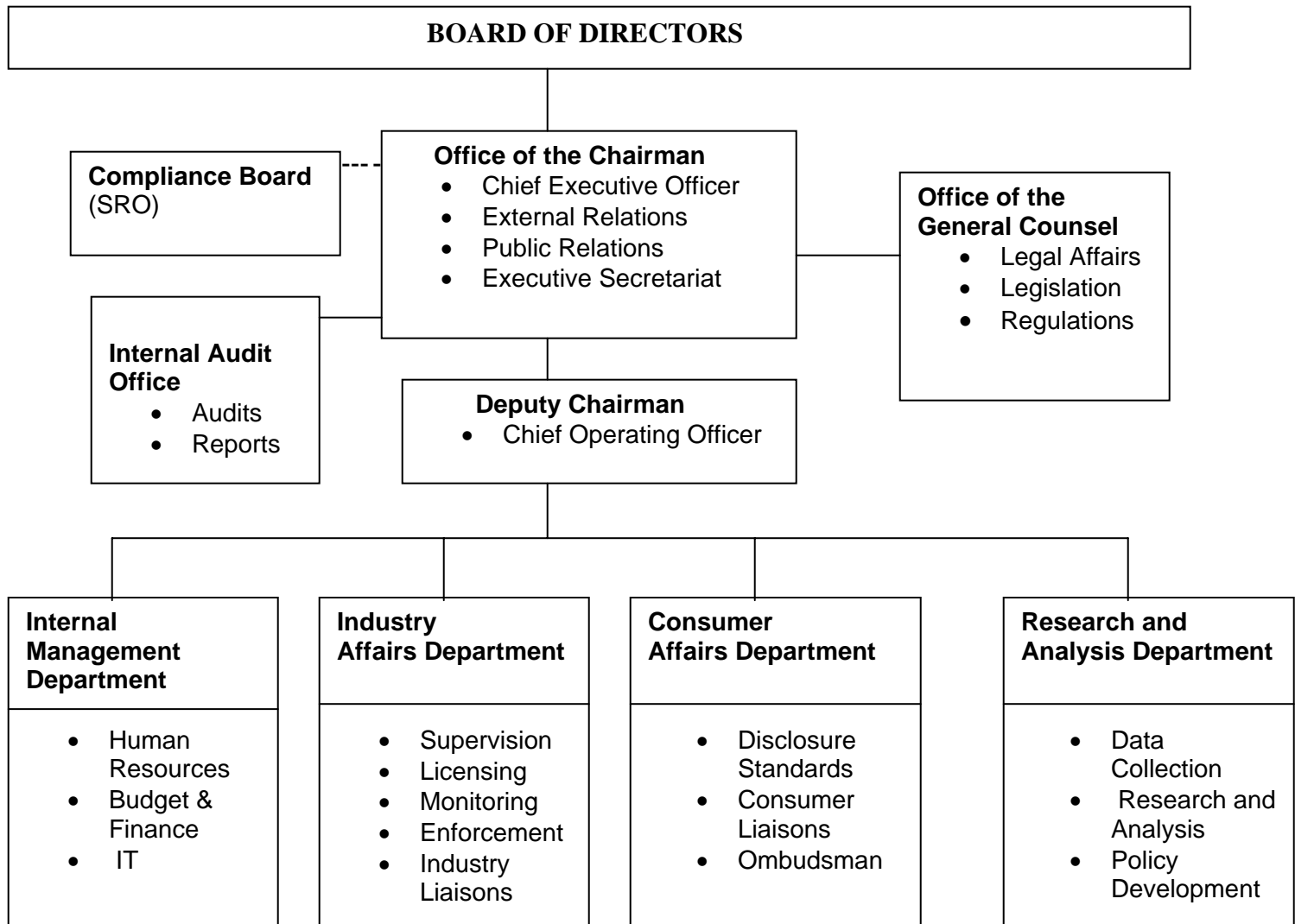
- Develop and obtain Board approval for written disclosures that all potential borrowers shall be required to receive, and to acknowledge receiving and understanding, from lenders (either MFCs or banks) before signing any mortgage contract. Such disclosures shall make perfectly clear the terms and conditions of the mortgage contract and contain explicit explanations and illustrations of the risks that the borrower is assuming in taking out the mortgage.
- Work with the EFS project to develop appropriate disclosure requirements based on the Code of Conduct in the European Union or some other international best practice.

FY2007-2008

- Develop and obtain Board approval for rules governing the mortgage “closing” process, based on international best practices, so that consumers are fully informed and aware of the total costs that they will be required to pay.
- Implement MFA’s “Ombudsman” function so that consumers will have an avenue to voice complaints and a place where their complaints can be investigated and referred to the appropriate authority for possible remedial action.



## **Annex 1: MFA ORGANIZATION CHART**



- Indicates Major Function.

----- Indicates a Delegation of Authority

\_\_\_\_\_ Indicates a Reporting Relationship

## **Annex 2: MFA USER FEES**

### **I. Fees for Licensing MFCs:**

- MFCs not exceeding LE 50 million in capital LE 5,000
- MFCs exceeding LE 50 million in capital LE 10,000

### **II. Fees for Documents and Forms:**

- Mortgage Contract for Property Purchase, 11 pages LE 100 maximum
- Mortgage Contract for Renovation, 11 pages LE 100 maximum
- Mortgage Contract for Construction, 11 pages LE 100 maximum
- Mortgage Brokers' Registration, 17 or more pages LE 100 max.
- Appraiser's Registration, 4 or more pages LE 10 per page
- Auditor's Registration, 3 or more pages LE 10 per page
- Terms and Conditions Documents LE 10 per page
- Registration Applications LE 10 per page
- Appraisers' and Mortgage Brokers' Fee Schedules LE 10 per page

### **III Service Fees:**

- Processing of licensing applications LE 20 per application
- Investigating complaints LE 20 per complaint
- Issuing license certificates LE 20 per certificate
- Renewal fee every three years LE 20

### **Annex 3: MFA's 17 "IMMEDIATE NEEDS" POSITIONS**

CONFIDENTIAL

<b>Position Title</b>	<b>Projected Monthly Salary &amp; Benefits</b>
Industry Affairs Advisor	LE 20,000
Consumer Affairs Advisor	LE 15,000
Research, Policy & Analysis Advisor	LE 15,000
Legislative and Legal Affairs Advisor	LE 12,000
Internal Affairs Advisor	LE 20,000
Monitoring and Enforcement Manager	LE 15,000
Industry Liaison Manager	LE 12,000
Consumer Liaison Manager	LE 12,000
Ombudsman Manager	LE 10,000
Research, Policy & Development Manager	LE 12,000
Information Technology Manager	LE 15,000
Communications Specialist	LE 10,000
Economic & Market Development Senior Researcher	LE 6,000
Network Information Technology Administrator	LE 6,000
IT Technical Support Specialist	LE 4,000
Chairman's Senior Support Coordinator	LE 7,000
Deputy's Support Coordinator	LE 7,000

#### **Annex 4: MFA PROJECTED IT BUDGET, FY 2006 – 2008**

<b>Expense Category</b>	<b>FY 2006</b>		<b>FY 2007 – 2008</b>	
	<b>USAID LE</b>	<b>GOE LE</b>	<b>USAID LE</b>	<b>GOE LE</b>
Hardware	1001,664	0	1,124,928	0
Software	1,197,504	235,584	705,600	1,857,600
Services*	299,520	57,600	748,800	288,000
Running Cost**	452,506	20,160	0	40,320
Total	2,951,194	313,344	2,579,328	2,185,920

\*Services (Site Preparation, Web Site Development, etc.)

\*\*Running Costs (Supplies and other expenses)

## **Annex 5: MFA FY2006 BUDGET**

### **MFA FY2006 Budget Sources and Uses**

<b>Description</b>		<b>FY 2006</b>
<b><u>Revenues</u></b>		
<b>Tax</b>		0
<b>Grants</b>		0
<b>Other Revenues (Operating)</b>		
Sales and Services Revenues		
Operating Services		
Licensing, Regulatory, and Supervision Fees		100,000
Services for Non-Profitable Organizations		
Housing and Urban Services		400,000
Others		0
Total		400,000
Miscellaneous Revenues		
Current		
Other current Misc. Revenues		0
<b>Total Other Revenues</b>		<b>500,000</b>
<b>Total Revenues</b>		<b>500,000</b>
<b>Revenues from loans and assets sales</b>		0

### **Sources of Finance**

    Received Loans and Bonds Issuance (other than stocks)

Received Loans and Bonds Issuance (Local)	
National Investment Bank	2,200,000
Foreign Loans (Reoriginated)	0
Loans from other sources	0
Total	2,200,000

Received Loans and Bonds Issuance (Foreign)	
To Finance Investments	0
To Finance Capital Liabilities	0

<b>Total Sources of Finance</b>	<b>2,200,000</b>
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<b>Total Resources (without deficit to be financed by State Treasury)</b>	<b>2,700,000</b>
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<b>Deficit to be financed by the State Treasury</b>	<b>1,610,000</b>
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<b>Total Sources</b>	<b>4,310,000</b>
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### **Uses of Funds/Expenses**

#### **Salaries and Employee Compensation**

##### Wages and Salaries

##### Cash Wages and Salaries

Permanent Jobs	239,000
Temporary Jobs	20,000
Detailees	47,000
Bonuses	1,075,000
Allowances	15,000
Cash Allowances	94,000
Total	1,490,000

##### In-Kinds

Overalls	15,000
Medical	50,000

Social Activities	<u>7,000</u>
Total	72,000
Social Benefits	
Social Contributions	
Gov. share in the Social Insurance Fund	93,000
Other Social Benefits	<u>30,000</u>
	123,000
<b>Total Salaries and Employee Compensation</b>	<b>1,685,000</b>
<b>Purchases (goods and services)</b>	
Goods	
Raw Material	1,000
Fuel & Oil for vehicles	
Fuel & Gas	20,000
Lubricants	<u>4,000</u>
	24,000
Spare Parts	
Spare Parts and Maintenance	20,000
Miscellaneous	<u>6,000</u>
	26,000
Stationary and Books	
Stationary	48,000
Books	5,000
Other Prints	<u>4,000</u>
	57,000
Water and Electricity	
Water	2,000
Electricity	<u>3,000</u>
	5,000
Miscellaneous Goods Requisites	4,000

<b>Total Goods</b>	117,000
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Services

Maintenance

Buildings Maintenance and Renovation	30,000
Vehicles Maintenance	20,000
Furniture and Office Equipment Maintenance	5,000
Computers and Electronic Equipments Maintenance	<u>5,000</u>
	60,000

Publications & Advertisements

Advertisements	20,000
Publicity	1,000
Receptions	5,000
International Visits	5,000
Public Relations	<u>3,000</u>
	34,000

Prints and Releases

Prints	13,000
Subscriptions in Magazines and Newspapers	<u>7,000</u>
	20,000

Transportations

Public transportation to employees by railroads	1,000
Public transportation to employees for in-country travel	45,000
Public transportation to employees for overseas travel	15,000
Travel Allowance for in-country travel	1,000
Travel Allowance for overseas travel	<u>18,000</u>
	80,000

Mails and Communications

Mails	1,000
Telephone	5,000
Internet	<u>5,000</u>
	11,000

Rent



Land, Buildings, Parking Space, ...	30,000
Subscriptions and Fees	
Subscriptions in Local Gov. Authorities	0
Cultural Relations and International Cooperation	
Delegates Exchange Oversees	4,000
Miscellaneous Services	
Insurance and Commission	1,000
Holidays	1,000
Exhibitions and In-country Forums	1,000
Miscellaneous	46,000
	49,000
<b>Total Services</b>	<b>288,000</b>
<b>Total Purchases (goods and services)</b>	<b>405,000</b>
<b><u>Interest</u></b>	<b>0</b>
<b><u>Subsidies, Grants, and Social Incentives</u></b>	
Social Incentives	
Social Support	
Cash	4,000
Social Incentives	
Cash (Funerals)	2,000
<b>Total Subsidies, Social Incentives</b>	<b>6,000</b>
<b><u>Other Expenses</u></b>	
Current Expenses	
Fees and Tax	
Sales Tax	5,000

Cars License Fees	7,000
Others	2,000
<b>Total Other Expenses</b>	<b>14,000</b>

**Purchases of non financial assets (Investments)**

Buildings and Constructions	
Residential Buildings	0
Non-Residential Buildings	650,000
Constructions	<u>600,000</u>
	1,250,000
Machines and Equipment and Transportation Means	
Transportation Means	150,000
Machines and Equipments	100,000
Tools	50,000
Offices Preparations	<u>100,000</u>
	400,000
Researches and Studies or Investment Projects	550,000
<b>Total Purchases of non financial assets (Investments)</b>	<b>2,200,000</b>
<b>Total Expenses</b>	<b>4,310,000</b>
Financial Assets Acquisition (Local/Foreign)	0
Loans Payments (Local/Foreign)	0
<b>Total Uses (without surplus to be returned to State Treasury)</b>	<b>4,310,000</b>
<b>Surplus to be returned to State Treasury</b>	<b>0</b>
<b>Total Uses</b>	<b>4,310,000</b>

**Annex 6:**  
**PROJECTED FY 2006 BUDGET FOR “IMMEDIATE NEEDS” POSITIONS**

No	Title							Year 2006						Annual Budget
		Quarter 3			Quarter 4			Quarter 1			Quarter 2			
		July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	Apr.	May	Jun.	
1	Industry Affairs Advisor			20000	20000	20000	20000	20000	20000	20000	20000	20000	20000	200000
2	Consumer Affairs Advisor				15000	15000	15000	15000	15000	15000	15000	15000	15000	135000
3	Research, Policy, and Analysis Advisor				15000	15000	15000	15000	15000	15000	15000	15000	15000	135000
4	Legislative and Legal Affairs Advisor				12000	12000	12000	12000	12000	12000	12000	12000	12000	108000
5	Internal Affairs Advisor				20000	20000	20000	20000	20000	20000	20000	20000	20000	180000
6	Monitoring and Enforcement Manager				15000	15000	15000	15000	15000	15000	15000	15000	15000	135000
7	Industry Liaison Manager				12000	12000	12000	12000	12000	12000	12000	12000	12000	108000
8	Consumer Liaison Manager				12000	12000	12000	12000	12000	12000	12000	12000	12000	108000
9	Ombudsman Manager						10000	10000	10000	10000	10000	10000	10000	70000
10	Research, Policy, Development Manager				12000	12000	12000	12000	12000	12000	12000	12000	12000	108000
11	Information Technology Manager				15000	15000	15000	15000	15000	15000	15000	15000	15000	135000
12	Communication Specialist				10000	10000	10000	10000	10000	10000	10000	10000	10000	90000
13	Economic and Market Development Senior Researcher	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	72000
14	Network Information Technology Administrator				6000	6000	6000	6000	6000	6000	6000	6000	6000	54000
15	IT Technical Support Specialist				4000	4000	4000	4000	4000	4000	4000	4000	4000	36000
16	Chairman's Senior Support Coordinator			12000	12000	12000	12000	12000	12000	12000	12000	12000	12000	120000
17	Deputy's Senior Support Coordinator			7000	7000	7000	7000	7000	7000	7000	7000	7000	7000	70000
	Sub-Total	6000	6000	45000	193000	193000	203000	203000	203000	203000	203000	203000	203000	1864000
	Audit												20000	20000
	Social Insurance												60000	60000
	Total	6000	6000	45000	193000	193000	203000	203000	203000	203000	203000	203000	283000	1944000



**Annex 7:**  
**GUARANTEED MORTGAGES WITH CENTRAL LIQUIDITY FACILITY**

